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Risk Management

Emerging Markets for U.S. Agriculture: Focus on Cuba

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Agriculture is twice as reliant on exports as the overall U.S. economy, and since the early 1970s, exports have accounted for 30 percent of total farm receipts in most years. U.S. agricultural exports are forecast to reach a record of $137 billion in 2011 (Fig. 1). As U.S. farm policy expenditures shrink and the world emerges from the most prolonged economic recession in decades, it is increasingly important to cultivate new export markets for agricultural products.

Although the embargo of Cuba remains in place, recent changes in U.S. policy have improved agriculture's access to that market.

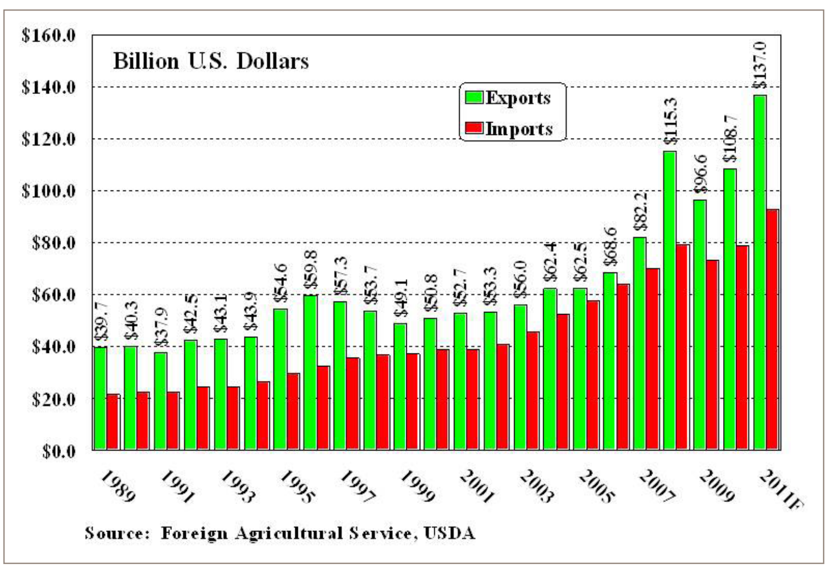

Figure 1. U.S. Agricultural Trade, 1989–2011F.

Under the Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA), U.S. businesses may export food, agricultural and forestry products, and medicines to Cuba. And though the U.S. government tightly controls exchange with Cuba, company representatives may now travel to Cuba and negotiate export sales.

Selling to Cuba

In 2000, the TSRA granted an exemption to the embargo that allows producers to travel to Cuba, to use U.S. currency for marketing, and ultimately to sell agricultural goods to Cuba under cash-in-advance terms.

Since the TSRA was implemented, the United States has become Cuba's fourth largest trading partner behind Venezuela, China, and Spain. Though it varies according product type, the United States is Cuba's largest supplier of imported food during most years.

Despite the embargo and financial restrictions, U.S. exports to Cuba reached $711 million in 2008 before declining in both 2009 and 2010 (Fig. 2). Cuba has become the

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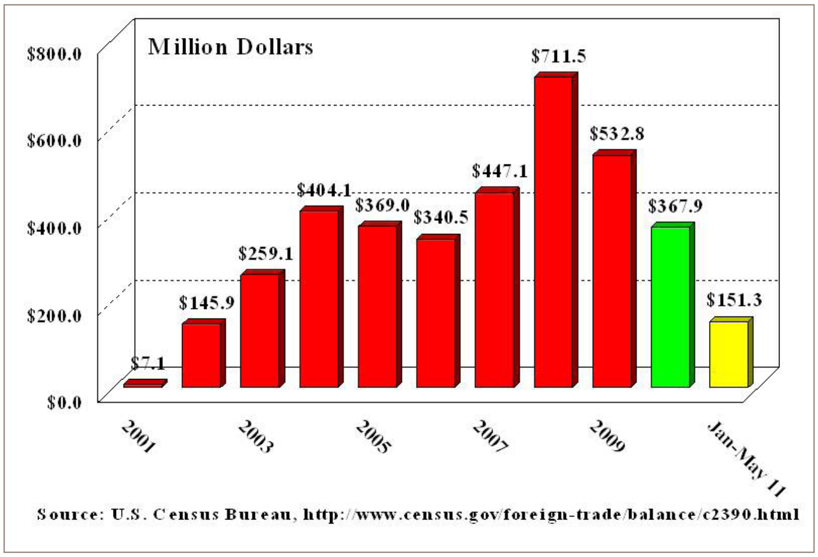

Figure 2. U.S. exports to Cuba, 2002–May 2011.

12th largest market in the Western Hemisphere for our agricultural products.

Although the United States and Cuba have no official diplomatic relations, Switzerland has represented U.S. interests in Cuba since 1961 and Cuba's interests in the United States since 1991. The U.S. Interests Section is in the former U.S. embassy building in Havana. The Cuban Interests Section is in the former Cuban embassy in Washington, D.C.

These interests sections handle requests for entry visas, analyze policy, and help businesses with contact information in their respective markets. The Global Agricultural Information Network report on Cuba also contains contact information, documentation requirements, labeling and other food import regulations. For more information see: *http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Miami%20ATO_Cuba_11-17-2010.pdf*

Products and protocols

An agricultural product in this context includes raw commodities, such as corn and wheat; semi-processed products such as powdered milk; processed foods such as snacks, meats, and beverages; and condiments, forestry products, and some fertilizers. However, agricultural machinery, irrigation equipment and most other implements is excluded. For a complete list of products that may be exported to Cuba, see: *http://www.fas. usda.gov/itp/cuba/Schedule-BEligibleCommodities06-28-06.pdf.*

TSRA requires that all U.S. exports to Cuba be shipped under cash-in-advance terms or be financed by a non-U.S. or non-Cuban institution. Under cash-in-advance, payment must be received by the U.S. exporter before title to the goods is transferred to Cuba. If purchases are to be financed, only third party financing is permitted; U.S. banks may not finance exports to Cuba. Consult the U.S. Treasury Department for the latest interpretation of these rules.

The Cuban government's buying agency, Empresa Cubana Importada de Alimentos (Alimport), handles all U.S. exports to the island. Alimport is Cuba's exclusive agent for all purchases from the United States and negotiates purchases, handles all documents, and arranges logistics and transportation of goods.

Before a U.S. firm may take samples or export its products to Cuba, each product must be reviewed and licensed by the Office of Exporter Services, Bureau of Industry and Security (BIS), U.S. Department of Commerce. The license is free and is valid for 1 year. The requirements and application are at *www.bis.doc.gov.*

The Treasury Department's Office of Foreign Assets Control (OFAC) regulates travel to Cuba and use of U.S. currency there. As of September 2008, U.S. exporters may travel to Cuba under a General License which does not require prior approval by the OFAC. This travel must involve commercial marketing, sales negotiations, delivery or servicing agricultural products in Cuba.

However, exporters must submit their travel plans to the OFAC at least 14 days in advance, maintain a record of expenses, and adhere to the State Department per diem limit. Exporters must keep a full work schedule while in Cuba and submit a written report within 14 days of their return. OFAC travel regulations are at *http://www. treasury. gov/resource-center/sanctions/Programs/Documents/cuba_tr_app.pdf.*

State Department per diem rates are at *http://aoprals.state.gov/web920/per_diem_action. asp?MenuHide=1&CountryCode=1049.*

Direct air travel to Cuba from the United States must be arranged through approved travel agents on designated charter airlines. These agents are listed at: *http://www.treasury.gov/resource-center/sanctions/Programs/Documents/cuba_tsp.pdf.*

Air charter service to Cuba departs from Miami, New York, and Los Angeles. Tampa, New Orleans, Dallas, Houston, Baltimore, Chicago, Pittsburgh, Fort Lauderdale, Tampa, Atlanta, and Puerto Rico were approved for departures in 2011, but as of August 2011 had not begun service. It is also legal to travel to Cuba via Mexico.

The Cuban economy

Cuba's population of 11.1 million uses a dual currency system. The **convertible peso** (CUC) is what the government uses to purchase U.S. exports. The CUC is also the currency for the tourism and retail sectors. International visitors receive CUC when exchanging their money and most purchases in restaurants, shops and other tourist locations are made in CUC. This currency is valued at $1.00, but for U.S. dollars alone there is a 10 percent fee for exchanging them to CUC. As a result, visitors often use euros or Canadian dollars in Cuba.

The **national peso** (CUP) is the currency in which Cuban nationals receive government salaries and is what they use for purchases in most of the subsidized food markets. The CUP is valued at 24 per 1 U.S. dollar, so it buys much less than the CUC.

About 85 percent of the Cuban population works for the government in some capacity and is paid in CUP. However, they often need to buy food and other necessities that are valued in CUC. As a result, the purchasing power of people who depend on government salaries is further eroded.

Though the per capita Gross Domestic Product of $5,128 is relatively low by most standards, that figure nearly doubles when government-subsidized housing, health care, transportation, and food are taken into account. However, the average Cuban earns the equivalent of about $20/month in salary from the government. As a result, actual market purchasing power is quite limited.

In the international market, Cuba needs convertible currency to buy imported goods. The island nation has three main income sources: nickel, remittances, and tourism.

- Since 2003, Cuba's income from nickel has averaged slightly more than $1. 0 billion annually and accounts for about 37 percent of total exports. Tobacco, sugar and fish account for only about 15 percent. In 2009, nickel exports were only $841 million and put an economic strain on the Cuban government. Current nickel prices are less than half what they were in 2007, so even if exports increase, nickel is unlikely to provide the income that it has historically.
- Remittances are defined as money that Cuban nationals receive from abroad. This hard currency is the second largest factor influencing food imports. From 2000 to 2010, remittances doubled, reaching almost $2.0 billion. This money stimulates economic growth and contributes significantly to the purchasing power of the Cuban people and the government. The United States is a major source these remittances and will continue to greatly influence food imports.
- International travelers supply slightly more than $2.0 billion per year to Cuba. From 2009 to 2010 visitors to Cuba increased by 5.5 percent, and their total spending increased by $115 million. International travelers are crucial to funding Cuba's ability to expand its food imports.

The Cuban market for food products

Cuba's ability to produce grain and oilseed crops is limited by poor soil conditions, undesirable rainfall patterns, high humidity, insect infestations and lack of pesticide or biological controls. These conditions suggest that Cuba will continue to be a significant regional market for grain, oilseed crops, and other food products.

The Cuban market for food products has three major segments:

- International visitors/tourists have the most purchasing power. Cuban revenue from this sector was $2.2 billion in 2010 and was a major source of foreign exchange. U.S. exports to Cuba rise and fall as Cuban income from tourism fluctuates. Though other factors influence U.S. exports, tourism in Cuba is an important factor in maintaining a viable export market for U.S. products.
- Cubans who have access to foreign currency also buy imported foods. About 60 percent of Cubans who receive remittances have jobs that pay factory and farm bonuses or work in the hospitality business and receive tips. Remittances reached nearly $2.0 billion during 2010, creating additional demand for U.S. food products. As this trend continues,

the Cuban government will likely rely more on U.S. exporters for stocking state stores that serve Cuban consumers.

- The least affluent segment of the Cuban population is represented by the 40 percent of people who have no access to hard currency. They rely solely on their salaries and have little opportunity to buy imported foods.

What does Cuba buy?

U.S. exports to Cuba in 2010 plummeted by 48 percent from the record of $711 set in 2008. Four major products represent about 85 percent of all U.S. exports to Cuba: frozen poultry, corn, soybeans and products, and wheat. Animal feeds, which have been strong over the past few years, and pork are the other exports consistently among the top categories (Fig. 3).

Poultry meats have been the leading export to Cuba at $109 million in 2010, down 25 percent from 2009. Frozen chicken legs and leg quarters represented $99.8 million; chicken franks $5.9 million; and fresh/frozen turkey $3.4 million.

Exports of other meats, primarily frozen pork cuts and hams, have grown in recent years. In 2010 these totaled $15.3 million, up 43 percent from 2009. Other meat products include pork bellies and, occasionally, offal and dried pork. Beef livers and frozen beef exports totaled just $581,000 in 2010.

Corn was the main U.S. grain export to Cuba at $94.8 million in 2010, down 25 percent from 2009. Wheat has been the other significant grain export to Cuba in recent years, but 2010 sales of $17.8 million was only one-fourth the total in 2009.

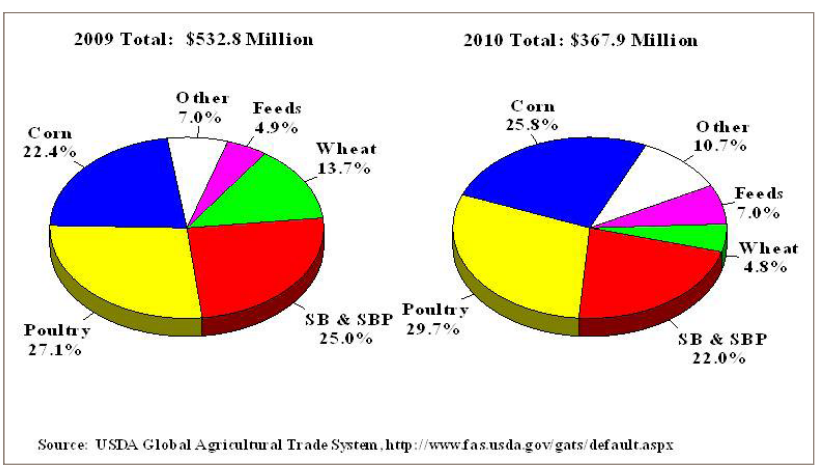

Figure 3. Composition of U.S. agricultural and related exports to Cuba, 2009 and 2010.

The U.S. soybean complex has been a major export to Cuba. Soybean exports were $41.9 million in 2010, down 32 percent from 2009. Soybean products, including soybean meal, soybean oil, and soybean flour, were $39.2 million in 2010, down about one-third from the previous year.

Another important export to Cuba is animal feed, primarily dry distiller's grain but also some mixed feeds. U.S. exports of animal feeds to Cuba yielded $25.6 million during 2010.

Other food exports to Cuba include dry beans, dairy products, margarine, and fruits:

- Cuba imported $5.6 million in dry beans from the United States in 2010, up 30 percent from 2009.
- Dairy product exports for 2010, which included butter, milk concentrate, and donated dairy products were $2.6 million down 10 percent from the previous year.
- Margarine exports, including edible oil for baking and frying, were up 16 percent to $2.5 million in 2010.
- Apple exports of $1.2 million dropped 42 percent in 2010, while grape/raisins rose 40 percent to $714,000.

Rough wood exports have been declining and totaled only $1.0 million in 2010. Processed food products, including chewing gum, juices, sauces, and other processed foods, were $3.4 million in 2010, down slightly from the previous year.

Though U.S. rice was a large export from 2000 to 2006, Cubans are extremely price sensitive, and in mid-2008 Vietnam took over this market with cheaper, lower quality rice.

Cuba has bought U.S. cotton sporadically. Though they bought no cotton in 2010, the first 5 months of 2011 saw $1. 9 million in U.S. cotton exported to Cuba. That is more than they bought in 6 of the 7 previous years. The absence of exports during any 1 year does not mean the market is closed for that product. The Cuban market is fluid and varies by month and year based on Cuba's ability to buy imported products.

Summary

- To visit Cuba, prospective U.S. exporters must obtain a general license from the U.S. Treasury and a Cuban business visa from the Cuban Interests Section in Washington, D.C.

- U.S. exports to Cuba must be licensed by the U.S. Department of Commerce and approved by the Cuban food import agency, Alimport, which handles all imports and documentation from U.S. suppliers.
- Cash payment for all sales to Cuba must be received before the title to the goods is transferred to Alimport.
- U.S. banks may not extend credit to Cuba or handle financial transactions; payment is generally managed through a third-country bank, usually in France.

Though U.S. exports to Cuba have declined in recent years, market prospects remain fairly sound. Currently, frozen poultry, corn, soybeans and wheat account for about 80 percent of U.S. exports to Cuba.

Income from tourism, remittances, and nickel exports will ultimately determine Cuba's ability to import foods from the United States. As the Cuban market matures and world economic conditions improve, this product mix will shift toward more high-value and processed foods. In the near term, U.S. and Cuban trade policies and regulations will strongly influence U.S. export prospects.

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